UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF KENTUCKY
PADUCAH DIVISION

IN RE: Mid-Continent University, Inc. Case No. 14-50687
Debtor Chapter 11

FIRST AMENDED DISCLOSURE STATEMENT AND PLAN

Comes now the Debtor-in-Possession, Mid-Continent University, Inc., and hereby submits the following First Amended Disclosure Statement and Plan pursuant to §1125 of the United States Bankruptcy Code. This First Amended Disclosure Statement and Plan is proposed by the Debtor and is supplied to the creditors, in order to inform them of the terms of the proposed Plan of Reorganization ("the Plan") filed by the Debtor in this case under Chapter 11 of the United States Bankruptcy Code. The purpose of this First Amended Disclosure Statement and Plan is to enable holders of claims as defined in the Plan to form an enlightened judgment as to whether to vote in favor of the Plan.

> NO REPRESENTATIONS CONCERNING THE DEBTOR, INCLUDING ANY AS TO THE FUTURE OPERATIONS, FUTURE INCOME, OR POTENTIAL RECOVERY BY CREDITORS, ARE AUTHORIZED BY THE PROPONENTS OTHER THAN THOSE SET FORTH IN THIS FIRST AMENDED DISCLOSURE STATEMENT AND PLAN. ANY REPRESENTATIONS OR INDUCEMENTS MADE BY OR TO ANY CLAIMANT TO SECURE ITS ACCEPTANCE OF THE PLAN WHICH ARE OTHER THAN AS CONTAINED IN THIS FIRST AMENDED DISCLOSURE STATEMENT AND PLAN SHOULD NOT BE RELIED UPON IN ARRIVING AT A DECISION CONCERNING THE PLAN. ANY SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR AND TO THE BANKRUPTCY COURT. THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO AN AUDIT BY INDEPENDENT ACCOUNTANTS. THE DEBTOR IS NOT ABLE TO WARRANT OR GUARANTEE THE ACCURACY OF THE

INFORMATION CONTAINED HEREIN; HOWEVER, THE INFORMATION IS ACCURATE TO THE BEST OF THE DEBTOR'S KNOWLEDGE. THE DEBTOR BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTEREST OF ALL CREDITORS AND RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTEE OF THE ACCURACY OR THE COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

ARTICLE I

DEFINITIONS

As used in this First Amended Disclosure Statement and Plan, the following terms shall have respective meanings:

1.1 ADMINISTRATION EXPENSE: Any cost or expense of administration of the Chapter 11 case entitled to priority under §507(a)(1) and allowed under §503(b) of the Code, including without limitation, any actual and necessary expenses of preserving the Debtor's estate, and actual and necessary expenses of operating the business of the Debtor, any indebtedness or obligations incurred by or assessed against the Debtor-in-Possession in connection with the conduct of their business, or for the acquisition or lease of property or for providing of services to the Debtor-in-Possession, and allowances of compensation or reimbursement of expenses to the extent allowed by the Bankruptcy Court under the Bankruptcy Code, and any fees or charges assessed against any of the Debtor's estates under Chapter 123, Title 28, United States Code.

1.2 ALLOWED CLAIM OR ALLOWED EQUITY INTEREST: Any Claim against or Equity Interest in the Debtor, proof of which was filed on or before the last date designated by the Bankruptcy Court as the last date for filing proofs of Claims or Equity Interest or, if no proof of Claim or Equity Interest is filed which has been or hereafter is listed by the Debtor as liquidated in an amount and to which no objection to the allowance thereof has been interposed or such Claim or Equity Interest has been allowed in whole or in part by a Final Order. Unless otherwise specified in the Plan, "Allowed Claim" shall not, for the purposes of computation or Distributions under the Plan, include post-petition interest on the amount of such Claim.

1.3 ALLOWED PRIORITY TAX CLAIM: A Priority Tax Claim to the extent that it is, or has become, an Allowed Claim, which in any event shall be reduced by the

amount of any offsets, credits, or refunds to which the Debtor or Debtor-in-Possession shall be entitled on the Confirmation Date.

1.4 ALLOWED SECURED CLAIM: A Secured Claim to the extent it is, or has become, an Allowed Claim.

1.5 ALLOWED UNSECURED CLAIM: An Unsecured Claim to the extent it is, or has become, an Allowed Claim.

1.6 BANKRUPTCY CODE: The Bankruptcy Reform Act of 1978, as it has been amended. Citations to the Code may be referred to as 11 U.S.C. or merely by section number.

1.7 CLAIM: Any right to payment from the Debtor whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or any right to an equitable remedy for future performance if such breach gives rise to a right of payment from the Debtor, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, disputed, undisputed, secured, or unsecured.

1.8 CONFIRMATION DATE: The Date upon which the Bankruptcy Court enters the Confirmation Order; provided, however, that if on motion, the Confirmation Order or consummation of the Plan is stayed pending appeal, then the Confirmation Date shall be the entry of the Final Order vacating such stay or the date on which such stay expires and is no longer in effect.

1.9 CLAIM OBJECTION DEADLINE: The date which is seventy-five (75) days after the Confirmation Date.

1.10 CONFIRMATION ORDER: An order of the Bankruptcy Court or any amendment thereto confirming the Plan in accordance with the provisions of Chapter 11 of the Bankruptcy Code.

1.11 COURT: The United States Bankruptcy Court for the Western District of Kentucky, Paducah Division.

1.12 CREDITOR: Any person that has a claim against the Debtor that arose on or before the Petition Date.

1.13 DEBTOR: Mid-Continent University, Inc.

1.14 DEBTOR-IN-POSSESSION: Mid-Continent University, Inc.

1.15 DISCLOSURE STATEMENT: A document which supplies Creditors with information about the Debtor sufficient to allow Creditors to make a well-informed judgment about the Plan, before casting their ballots.

1.16 DISPUTED CLAIMS: Equity Interests, Preferred Equity Interests or Claims against the Debtor with which an objection has been filed prior to the Claim Objection Deadline.

1.17 DISTRIBUTIONS: The property required by the Plan to be distributed to the holders of Allowed Claims and Allowed Equity Interests.

1.18 DISTRIBUTION DATE: Date upon which Distributions to be made pursuant to the Plan will be effected, which date shall be on or before the first business day following the expiration of ninety (90) days following the Confirmation Date.

1.19 EFFECTIVE DATE OF THE PLAN: The Effective Date of the Plan is sixty (60) days after the date upon which an order confirming this Plan becomes final and non-appealable.

1.20 FINAL ORDER: An order or judgment of the Bankruptcy Court which has not been reversed, stayed, modified, or amended and as to which (a) any appeal that has been taken has been finally determined or dismissed, or (b) the time for appeal has expired and no notice of appeal has been filed.

1.21 PERSON: An individual, a corporation, a partnership, an association, a joint stock company, a joint venture, an estate, a trust, an incorporated organization, or a government or any particular subdivision thereof or other entity.

1.22 PETITION DATE: The above-styled Chapter 11 proceeding was filed on September 30, 2014.

1.23 PLAN: The proposal included in this document, as it may be amended, to restructure the payment of certain Claims on terms which differ from the original invoice, lease, promissory note, or debt instrument which created the Claim.

1.24 PRIORITY TAX CLAIM: Any Claim entitled to priority in payment under §501(a)(7) of the Bankruptcy Code.

1.25 PRO RATA: Proportionately so that the ratio of the amount of a particular Claim or interest to the total amount of Allowed Claim, Allowed Preferred Equity Interest, or Allowed Equity Interest of the class, in which the particular Claim or interest is included, is the same as the ratio of the amount of consideration distributed on account of such particular Claim in interest to the consideration distributed on account of Allowed Claim, Allowed Preferred Equity Interest of the class in which the particular Claim or interest is included.

1.26 SCHEDULES: Schedules and Statement of Affairs, as amended, filed by the Debtor with the Bankruptcy Court listing liabilities and assets.

1.27 SECURED CLAIM: A right to payment from the Debtor, other than an Administration Expenses or Priority Tax Claim, for a pre-petition debt to the extent that it is validly and properly secured, in accordance with applicable law, by any form of collateral, real, personal, intangible, or tangible, which is evidenced by a timely filed proof of Claim or by Debtor's Schedules, and which is allowed by the Court.

1.28 UNSECURED CREDITOR: Any Creditor that holds a Claim which is not a Secured Claim.

1.29 AVOIDANCE ACTIONS: All claims granted the Debtor-in-Possession or a Trustee under §§544-553 of the Code.

ARTICLE 2

BACKGROUND

2.1 BACKGROUND OF DEBTOR. Mid-Continent University (MCU) was organized in 1949 to provide Baptist ministers with an opportunity to receive training in the study of the Bible. In the 1970s, the school established its current campus located north of Mayfield, Kentucky.

MCU programs were accredited by the Southern Association of Colleges and Schools (SACS), the regional body for the accreditation of degree-granting higher education institutions in Kentucky, Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, Tennessee, Texas and Virginia. MCU maintained accreditation with SACS until December of 2014 which was past the end of all instruction on June 30, 2014. Additionally, MCU was licensed by the Kentucky Council on Post-Secondary Education.

As a non-profit institute of higher education, Mid-Continent University maintained required annual third-party financial audits along with a yearly third-party rigorous, organization-wide OMB A-133 audit that is required for all entities that expend $750,000.00 or

more of Federal assistance, commonly known as Federal Funds, Federal Grants or Federal Awards. From its beginning in 1949 to the end of instruction on June 30, 2014, MCU conferred 5,716 degrees. As a non-profit, MCU annually submitted Form 990 under section 501(c) of the Internal Revenue Code, which is available for public view, of financial reporting and various salaries paid to employees.

The college maintained its not-for-profit Christian tradition through all years but, in approximately 2000, the school began offering instruction through a new academic program which was designed to aid students who were underserved by traditional higher education programs, particularly non-traditional students. It was called the "Advantage" program. This program was purchased from the Advance Learning Network, a tradename registered by College Leadership Consultants of Shoreline, Washington. Mid-Continent University named the program "Advantage."

Courses in the Advantage Program were offered in a condensed timeframe which proved to be a significant benefit for students in the workforce. The early focus of the Advantage Program was on bachelor and associate degrees. Master degrees were added after the program had appropriately matured and featured five week face-to-face instruction for undergraduate degrees. A similar program was used for master degree programs. The Advantage Program supplemented the traditional semester program largely practiced on the University's campus. In addition to the benefit of concentrated course work, Advantage classes were held face-to-face in many off-site locations throughout western Kentucky and southern Illinois. MCU was accredited by the Southern Association of Colleges and Schools. This proved to be very beneficial to many students as opposed to the easier delivery of online distance learning. It took

an extremely dedicated faculty and staff to serve distant sites. Such increased accessibility to higher education is the most prominent topic in higher education today.

Apparently, the school's administrators who were responsible for the Advantage Program from its first academic year to its last (none of whom remain with the Debtor) did not realize that the Department of Education (DOE) considered the Advantage Program structure courses to be "non-term" delivery of instruction, in contrast to typical college terms of Fall, Spring and Summer. Although a large number of DOE reporting and compliance rules apply to both "term" and "non-term" instruction, there are some unique requirements in place for "non-term" education courses which required different reporting and compliance requirements from those relating to traditional term courses. During a routine "site visit" to MCU in 2010-2011, a Department of Education (DOE) team apparently became concerned that some of the DOE requirements were not being fully addressed. The DOE initiated a Program Review in 2011 which is designed to allow the DOE to work more closely with a school to insure Federal Student Aid compliance. The DOE Program Review included the requirement for MCU to review the documentation of student financial aid records and policies from 2008 to 2012, particularly related to the Advantage program, and make adjustments, corrections and/or policy changes to properly to align their programs with federal aid regulations and reporting format requirements.

In August 2011, MCU hired EC Group, LLC, a nationally renowned financial aid consulting firm headed by Mr. Robert Evans, a veteran administrator of the DOE, to provide MCU with guidance and support in complying with the requirements of the DOE. A major challenge of evaluating "non-term" compliance is that students have individual academic periods as opposed to the three terms of traditional term instruction. As records are held in the main

computer software of a school (Jenezbar EX at MCU), specialized Federal Aid software (PowerFAIDS at MCU) and additionally in some hardcopy documents, it is a very large and complex undertaking even to do the sample work that is requested in DOE Program Reviews for "non-term" instruction. This may be evidenced by the fact that the DOE granted MCU and the EC Group nine extensions between October 7, 2011 and February 28, 2013 to provide more time to compile Program Review data. Despite considerable effort and expense, the EC Group continued to struggle with completing all of the tasks outlined in the Program Review, and the MCU President terminated their services, replacing them with another specialized federal financial aid service firm in Washington, D.C, Dow Lohnes (later acquired by Cooley, LLC), with the project headed by Mr. Michael Goldstein, a renowned expert in the field of federal financial aid compliance and law.

The work of the DOE Program Review continued, but MCU and its consultant were not able to satisfy all of the directives of the DOE's Program Review, and therefore MCU was placed into the federal aid reimbursement program called Heightened Cash Monitoring 2 (HCM2) on August 13, 2013. Under this program, a school moves from DOE disbursements being made in advance of sample verifications of records to disbursements being held until after sample verifications have been approved. MCU was not approved to receive advance payment of federal student aid funds at the beginning of the 2013-2014 school year but rather was required to receive DOE reimbursements after submitting samples of student documentation in advance. The length of time for the HCM2 change in DOE funding disbursement would depend on the number of submissions approved and the discretion of the DOE in determining that a sufficient amount of compliance had been evidenced and any corrections effected, thus allowing the school to return MCU to the advance payment method.

MCU's annual funding was based between seventy and eighty percent on federal financial aid, as is the case with the vast majority of all public and private colleges and universities in the United States. On August 13, 2013, MCU was placed in the HCM2 Program without advance notice and no payments were made by the DOE on behalf of any student after that date. The submission requirements of HCM2 are among the most complex and detailed of any program managed by the DOE. Significant effort and continuous work with the DOE is required to understand all of the directives of the HCM2, including both data requests and submission formats, as the program is generally unknown by operating schools. This would require months of preparation with a "normal" expectation of any school in the HCM2 program that the first submission would be returned with further requests for clarification and/or corrections.

The complexity of "non-term" compliance evaluation for HCM2 appeared to be a time-consuming challenge for both MCU and the Department of Education. On October 18, 2013, MCU sent its Submission #1 to the DOE. It was for two hundred (200) students. Two (2) were from 2011. One hundred and sixty (160) were from 2012. Ninety-six (96) were starting 2013, the final year of MCU instruction. The total dollars in the submission was $540,061.00. Thirty-seven (37) questions were answered for each student, a total of seven thousand and four hundred (7,400) responses. Per the normal process of HCM2, the DOE selected a sample of one hundred and two (102) students for twenty-three (23) further detailed questions. This amounted to two thousand three hundred and forty-six (2,346) additional pieces of information. This requested information for the sample was delivered to the DOE on November 13, 2013. Working with the DOE on a continuous basis, additional sample information was provided by MCU on December 10th, 18th and 24th of 2013.

On January 21, 2014, the DOE returned the Submission #1 sample to President Robert Imhoff with two (2) general deficiency concerns and specific questions on thirty-five (35) of the students. There were one hundred forty-nine (149) questions to be answered for specific accounts. MCU had operated approximately half of the academic year with no funds from the DOE. MCU immediately started work to respond to the DOE concerns that were finally known. This included hiring previous DOE Program Review auditors to evaluate the MCU responses to insure the success of the submission. MCU's answers to DOE concerns were submitted on March 3, 2014, with the expectation of success. On March 19, 2014, the DOE rejected the resubmission by letter to Interim President Dr. Ken Winters based on four (4) completely different general concerns for the same sample which were previously not disclosed and specific questions related to seventy (70) students in the same sample which had not been asked previously. Only three (3) student's questions were brought up again in the rejection. Apparently, one hundred forty-six (146) of the one hundred forty-nine (149) questions had been properly addressed. MCU reasonably concluded that thirty-two (32) of the thirty-five (35) student questions had been satisfactorily answered along with the two (2) general deficiency concerns. The rejection of reimbursement for all two hundred (200) students in this case was based on a completely new set of concerns, not the requested responses. MCU had no means to anticipate such an action. MCU was confident the new concerns could be addressed by new administrators as they had done with the January 11th issues of the DOE.

Unfortunately, the financial burden of the newly extended delay made it impossible to both address the DOE's concerns and complete the academic year of instruction to allow for graduation. Students were immediately informed. All courses in session were taught. Courses that students might need to graduate were identified and started if possible. Formal

arrangements were made with Murray State University, Campbellsville University and University of the Cumberlands that provided important transfer benefits for all MCU students.

The DOE HCM2 program required MCU to post to student accounts anticipated federal loans and/or grants as if the disbursements had actually been made by the DOE on the student's behalf. The DOE remains aware that no funds were transferred to MCU after August 13, 2013. The HCM2 program has no provisions for addressing non-disbursement of loans and grants. With help from the Kentucky Office of the Attorney General (KOAG), Consumer Protection Division, MCU was able to carefully construct a loan option with terms and conditions matching or exceeding those anticipated but not received by MCU students after August 13, 2013. The offer was also extended to cover all debt if the student wanted to use it, which exceeds the amount they would have qualified for in the DOE loan program. Students were also offered a twenty percent discount of their balance and up to ten (10) years interest free to pay, with a $50.00 per month minimum due to processing costs. Students were also offered thirty percent off their balance if paid in full within thirty (30) days. All loan offers were voluntary. No institutional loans exist with MCU unless authorized by the student. Students who would qualify for a Closed-School Discharge (CSD) of a federal loan were also offered a CSD for an amount to any federal loan that was anticipated but not received after August 13, 2013.

It is important to note that the DOE concerns related to the MCU HCM2 reviews did not identify any financial impact either positive or negative to MCU. Likewise, as the Program Review was still in progress, there was no DOE conclusion provided to MCU as to the net effect of any federal financial aid recording and/or reporting by the institution that would indicate whether MCU was overfunded or underfunded by federal student aid for the period of concern

for the Program Review which was Academic Years 2008-2009, 2009-2010, 2010-2011 and 2011-2012.

As a final point of the history and legacy of Mid-Continent University, in addition to the enormous tasks undertaken with the DOE outlined above, by coincidence, the university was engaged with SACS, the regional accreditation agency, in its scheduled ten (10) year reaccreditation while the DOE Program Review and HCM2 programs were underway. Periodic reaccreditation is a significant strain on human and financial resources of any institution but particularly on those operating in non-profit status without large endowments. Many staffers (both long-time employed and newly hired), dedicated faculty members and important volunteers, rose to meet the challenges of Program Review, HCM2, Reaccreditation and making it to graduation, with determination and conviction. This was one of the most complicated and complex situations that a non-profit university could face. Approximately $2.5 million was spent on nationally known financial aid experts and higher education attorneys. Additionally, a tremendous amount of time and effort was expended by state, federal and accreditation agencies to help MCU work through the challenges of fitting the square peg of a new, approved, non-term, student accessible delivery of higher education instruction into the round hole of traditional education and government oversight processes.

In the 2013-14 school year, MCU provided education services to its students largely through its operating general fund which exceeded $10 million. The money ran out in April 2014, but through extraordinary and sometimes voluntary efforts, MCU and its faculty and staff were able to “teach out” all of the courses existing in the spring of 2014.

2.2 HISTORY OF THIS CASE. The bankruptcy petition was filed on September 30, 2014. In the interim period between the filing of the petition and the date of this filing, the

Debtor-in-Possession has begun the task of collecting outstanding student debt using a small staff, which has recently been reduced to six (6) staff members working reduced schedules. Three recently laid off staff members continue to volunteer their time in serving students, creditors and Board of Trustees. The Debtor-in-Possession also engaged a professional debt collection agency for certain types of student loan management and debt collection. In addition, the Debtor-in-Possession, with the Court's approval, has sold or obtained permission to sell certain property in order to support administrative expenses, including some miscellaneous office furniture, the library collection and shelving, and certain athletic equipment. In addition, the Debtor-in-Possession has engaged a real estate broker to market the campus property for sale.

The collection process for a large portion of the Debtor's outstanding accounts receivable was delayed by negotiations with the Kentucky Attorney General's office regarding an Assurance of Voluntary Compliance ("AVC") that described student payment offers, conveyed dispute processes and informed students of the Closed-School Discharge benefit and set guidelines for the collection of certain types of student debt owed to the Debtor. This was a lengthy process with some clarifications that was only formally finalized in October 2015. The Debtor-in-Possession has now sought permission from the Court to engage a law firm to seek collection of the majority of these receivables and is continuing selection of other service providers to manage the remaining accounts.

ARTICLE 3

LOCATION OF BOOKS AND RECORDS

3.1 Books and records are maintained by the Debtor at the Debtor's main campus at home located at 99 Powell Road East, Mayfield, Kentucky 42066.

ARTICLE 4

PENDING OR THREATENED LITIGATION

4.1 At the time of the filing of the bankruptcy, the Debtor was party to one suit in litigation, captioned as *Stephen Wilson, et al. v. Mid-Continent University*, Case No. 14-CI-00261, in the Circuit Court of Graves County, Kentucky, in which certain ex-employees sought unpaid wages. Technically, this suit concluded prior to the filing of the bankruptcy with a judgment in favor of the Plaintiffs. However, time for appeal had not run at the time of filing. The Plaintiffs' claim is treated as a priority claim in this First Amended Disclosure Statement and Plan.

ARTICLE 5

FINANCIAL INFORMATION

5.1 DEBTOR'S DIP BANK ACCOUNT. The Debtor-in-Possession presently operates Debtor-in-Possession accounts at Citizens Deposit Bank, 1 Walnut Street, Arlington, Kentucky 42021.

5.2 ATTORNEYS' FEES. It is estimated by the attorney for the Debtor that legal expenses incurred in the representation of the Debtor in this Chapter 11 proceeding for services rendered by Whitlow, Roberts, Houston & Straub, PLLC will be approximately $50,000.00. The Debtor paid an initial retainer to the attorney in the amount of $35,000.00. The attorneys for the Debtor from Whitlow, Roberts, Houston & Straub, PLLC charge the Debtor-in-Possession for services rendered at the hourly rates of $210.00 for Partner Mark C. Whitlow, $195.00 for Partner Nicholas M. Holland and $110.00 for Paralegal Linda Huff.

During the pendency of the bankruptcy, the Debtor also engaged Cooley LLP to assist with negotiation with the Kentucky Attorney General regarding student borrowing issues. It is

anticipated that some additional professional fees will be incurred in favor of Cooley LLP, in the estimated amount of $35,000.00. The attorneys for the Debtor from Cooley LLP charge the Debtor-in-Possession for services rendered at the hourly rates of up to $900.00.

5.3 OTHER PROFESSIONAL FEES. The Debtor-in-Possession has retained Dean Dorton Allen Ford, PLLC as accountants and auditors in connection with certain reporting requests for the U.S. Department of Education regarding documentation for federal funds and various tax issues. The estimated expense that will be incurred for these services is $42,750.00. Services are rendered at the rate of $115.00 per hour.

The Debtor-in-Possession has retained Bunch Bros. Auction & Realty in connection with the marketing and sale of its real property. Bunch Bros. will likely be paid from the proceeds of any sale or by a successful credit bidder. However, if Debtor terminates Bunch Bros.'s representation prior to its expiration, Debtor may be responsible for a $2,500.00 fee to cover Bunch Bros.'s advertising expenses. Debtor plans to engage the services of a national broker to either work in conjunction with Bunch Bros. regarding the marketing and sale of Debtor's assets or to undertake the brokerage efforts if Brunch Bros.'s contract is terminated or expires. Court approval would be required for the Debtor to retain a national broker.

With the court's approval, the Debtor has retained the services of NES of Chicago, Illinois. NES is processing the student debt represented by individual promissory notes. There is approximately $1,394,449.00 outstanding in this category of student debts. NES collects the student funds under the following fee schedule:

Loan Servicing:

In-School Accounts $2.50 / Month / Account
Deferment Accounts $3.00 / Month / Account
Repayment Accounts $3.90 / Month / Account
Delinquent $1.15 / Month Additional / Account

Other Services: **Default Processing**	**Not to Exceed $35.00 per Borrower; 3 options described in Program Guide**
Ad Hoc Reporting	$75 / hour
Web programming/development (portals, etc)	$85 / hour
Other Programming	$85/hour
Deconversion Fee	$35 / Account
Privacy Notices	$0.90 per annual notice
IRS 1098 Notices	$0.96 per borrower

In the event a student fails to pay the promissory note, NES is referring the obligations to professional collection agencies affiliated with NES.

The Court has approved the Debtor's application to employ Slovin & Associates of Cincinnati, Ohio, to collect student debts in Kentucky, Ohio and Indiana. Slovin & Associates will receive 28 percent of the money it collects, plus out-of-pocket costs and expenses. The outstanding amount of student debt which will be collected by the Slovin firm and Illinois firm is approximately $4,502,396.00. The Debtor plans to engage a collection firm to collect the student accounts in the remaining states. At this time, the student debt in these states is approximately $1,353,235.00. At this time, the Debtor has received one formal proposal to manage this category of collection work.

In addition to the collection efforts described above, MCU continues to work on student accounts in the categories of new loan offers for students involved in past "site" issues, students with current disputes of balances and/or payments, students seeking Closed-School Discharges and students with significantly aged receivables.

ARTICLE 6

PLAN OF LIQUIDATION

6.1 OVERVIEW OF PLAN. The Debtor proposes to undertake an orderly liquidation of the assets of Mid-Continent University, Inc.

The Debtor proposes to sell the campus property and all other real property, as anticipated by the Bunch Bros.'s listing contract. Prior to filing bankruptcy, the Debtor obtained an appraisal of $2.9 million for all of its real property. The initial listing price is $4.3 million. The campus currently is carrying secured debt of approximately $3.1 million. The Debtor hopes to sell most of the personal property that is on the campus to the buyer of the real property, but will auction or sell that property to others if it becomes necessary. Any sale of Debtor's personal property shall be with the knowledge and consent of Huntington Bank, which retains a perfected first priority UCC lien on the Debtor's personal property assets. The proceeds from the sale of personal property shall, at Huntington Bank's election, be paid to Huntington Bank or used by the Debtor as operating funds. If the sales proceeds are used by the Debtor, Huntington Bank shall receive a superpriority claim in such amount pursuant to §507(b). All other tangible personal property of the Debtor will also be sold. Secured creditors will be paid from the proceeds of this sale in the order of priority. Any deficiency will become an unsecured debt.

The Debtor proposes to continue to engage in collection efforts to collect outstanding student debt. The Debtor has been complying with the July 13, 2015 Assurance of Voluntary Compliance ("AVC") entered with the Office of the Kentucky Attorney General. As agreed therein, the AVC is an integral part of this reorganization plan and the Debtor intends to continue to comply with it. (AVC paragraph L, p. 18). Eventually, once the value of the existing accounts receivable and the likely recovery factor has become clearer, the Debtor plans to liquidate the accounts receivable by selling the remainder to a collection agency or other interested party. The Debtor will sell all outstanding student debt within 24 months of confirmation of the Plan.

6.2 CLASSIFICATION AND TREATMENT OF CLAIMS. The following classification of claims and the proposed treatment of each class are propounded in good faith. Nothing herein should be construed as a waiver by the Debtor of any defenses to any individual claims, nor does this classification scheme create any presumptions of allowability of particular claims.

CLASS A - ADMINISTRATIVE, PRIORITY AND U.S. TRUSTEE CLAIMS

CLASS A-1 - SUPERPRIORITY CLAIMS OF HUNTINGTON BANK

In the Second Agreed Interim Order regarding Huntington Bank, the Court granted Huntington Bank a superpriority claim pursuant to § 507(b) in the amount of $40,000.00 based upon the Debtor's inability to make the adequate protection payment to the bank. Huntington Bank is also entitled to a superpriority claim of approximately $22,000.00, which is the estimated value of the athletic equipment Debtor is selling and upon which the bank has a lien.

CLASS A-2. Class A-2 shall consist of all Administrative Expenses allowed pursuant to 11 U.S.C. § 503, including without limitation compensation and reimbursement allowed pursuant to 11 U.S.C. § 330 to the attorneys for the Debtor-in-Possession, and any other professional persons employed pursuant to 11 U.S.C. § 327, the entities holding such claims being sometimes referred to herein collectively as "Class A-2 Claimants." Class A-2 Claimants will be paid in full at such times as ordered by the Court or the Code. Any professional fees incurred after Confirmation may be billed and paid in the ordinary course of business without Court approval.

CLASS A-3. Class A-3 shall consist of fees owed to the Office of the U.S. Trustee pursuant to 28 U.S.C. § 1930. The Debtor has timely paid all U.S. Trustee fees. The Debtor shall owe quarterly administrative fees until such time as the case is closed, dismissed or

converted to a case under Chapter 7 of the Bankruptcy Code. The Debtor contemplates filing a motion to close this case after confirmation of the Debtor's Chapter 11 Plan. Upon closure of the case, the U.S. Trustee fees will cease.

CLASS A-4. Class A-4 shall consist of all Administrative Expenses resulting from the purchase by the Debtor-in-Possession of goods and services on open account and in the ordinary course and conduct of the Debtor's business during the case. Entities holding such claims being sometimes referred to collectively as "Class A-4 Claimants." The claims of the Class A-4 Claimants shall be assumed by the reorganized Debtor and shall be paid in the ordinary course of its business in accordance with the terms and the conditions agreed upon between the claimant and the Debtor. Except for attorneys' fees, the Debtor is generally current with all post petition claims.

CLASS A-5. Class A-5 consists of all former employees of the Debtor who have filed claims against the Debtor for unpaid wages and accrued vacation. All of the persons in this category fall under the ceiling set by 11 U.S.C. §507(a)(4). The estimated total amount of this claim is $125,000.00.

CLASS B - SECURED CLAIMS

CLASS B-1. HUNTINGTON BANK.

Huntington Bank holds a first mortgage on Debtor's campus property located at 99 Powell Road East, Mayfield, Kentucky 42066. A recent appraisal by the Debtor indicates that the value of this asset is $2,900,000.00. The first Huntington Bank mortgage has a balance of approximately $2,345,000.00. Huntington Bank also has a perfected first priority lien on Debtor's personal property worth approximately $100,000.00. Experience suggests that

notwithstanding the appraised value, the bank may not receive a full recovery if there is a forced liquidation.

The Debtor does not currently have sufficient cash flow to make payments to Huntington Bank. The Debtor has agreed to sign an agreed order terminating the automatic stay if the bank requests this prior to the confirmation hearing. Otherwise, the property may be sold through the Bankruptcy Court pursuant to 11 U.S.C. §363.

If Huntington Bank obtains an agreed order terminating the automatic stay, it may not file this prior to May 1, 2016. Huntington Bank may delay the filing of the agreed order at its discretion. Huntington Bank will have the right to credit bid up to the amount of its debt in any 363 sale. The Court will establish additional procedures in the event of a 363 sale of the Debtor's real or personal property assets.

THIS CLAIM IS IMPAIRED.

CLASS B-2. US BANK INTERNATIONAL ASSOCIATION.

U.S. Bank, N.A. holds a first mortgage on one of Debtor's dormitories located on the Debtor's campus. There has been no appraisal of the dormitory, but Debtor believes that its value is less than the balance of $600,000.00 owed to this creditor. The money represented by this claim is to pay any former student of the Debtor who did not receive a full "teach out" of any course when the Debtor closed. The Kentucky Council on Post-Secondary Education requires all Kentucky schools to have this financial protection for their students. Debtor is not aware of any claim by any student. However, pursuant to an agreement between U.S. Bank and the Council, the $600,000.00 is retained by the Council until January 2017. Debtor has requested the Council to shorten this time. When the Council releases the funds to the bank, the Debtor's obligation to the bank should be limited to interest and the bank's costs, which are not currently known.

In the event the Debtor's property is sold, U.S. Bank and Huntington Bank should develop an agreement for pro rating the sale proceeds between them. Absent an agreement as to the dispensation of the sale proceeds, either or both parties will seek guidance from the Court. In the event U.S. Bank receives any proceeds from the sale of the real property on which it has a Senior Mortgage Lien, and eventually receives all or most of the $600,000.00 loan proceeds, then U.S. Bank must pay back the excess proceeds, less its allowed expenses, either to Huntington Bank, or, if Huntington Bank has been paid in full, to the Debtor.

THIS CLAIM IS IMPAIRED.

CLASS C - GENERAL UNSECURED CLAIMS

CLASS C. This class consists of the claims of all unsecured creditors, including any deficiency claims of secured creditors remaining after liquidation of the secured creditor's collateral. The Court entered an Order establishing a bar date of January 15, 2015, for claims to be filed in this matter. The top 20 unsecured creditors include the following:

U.S. Department of Education
KHEAA
Commonwealth of Kentucky, Department of Unemployment Insurance
Community Financial Services Bank
KSBIT-Property & Liability Fund
Pioneer College Caterers, Inc.
Stephen Williams
Chase Card Services
Howard D. Happy Company, Inc.
David Williams
Sila Tuju
Paul Melvin II
TCF Equipment Finance, Inc.
Speedway SuperAmerica, LLC
WLEX-TV
WKYT
Kenway Distributors, Inc.
Comcast Spotlight
Kentucky National Guard

No interest or penalties shall be paid on Allowed Unsecured Claims. Upon confirmation of the Plan, all other indebtedness owed to unsecured claimants above what the Debtor has proposed to pay shall be discharged. All debt owed to creditors who did not timely file a proof of claim shall be discharged. All allowed unsecured claims will be paid pro rata to the extent of available funds. Presently, it is impossible to estimate the money available to the unsecured creditors.

6.3 AVOIDANCE AND OTHER COLLECTION ACTIONS. Except as provided in the Plan or in any agreement or release entered into in connection with the Plan, the Debtor shall retain and may enforce any claims, demand or cause of action characterized as an avoidance action under 11 U.S.C. §§ 542-553 as described in the Plan, whether under the Bankruptcy Code, federal or state statute or common law. The Debtor currently is not aware of any avoidance actions or any other Chapter 5 claims.

6.4 EVENTS OF DEFAULT. In the event the Debtor defaults under the provisions of this Plan, any creditor or party in interest desiring to assert such a default shall provide the Debtor with written notice of the alleged default. The Debtor shall have thirty (30) days from receipt of written notice in which to cure the default. Such notice shall be delivered by certified mail, return receipt requested, to the attorney for the Debtor at the address stated on the final page of this Plan, with a copy of said notice also sent to Debtor. If the default is not cured, any creditor or party in interest may thereafter file and serve upon counsel for the Debtor, a motion to compel compliance with the applicable provisions of the Plan, or take appropriate action in state court to enforce its rights.

ARTICLE 7

BEST INTEREST OF CREDITORS TEST/LIQUIDATION ANALYSIS

Both secured and unsecured creditors will benefit through pendency and confirmation of this Chapter 11 liquidation. Had the assets of this case been liquidated through a Chapter 7 liquidation at the time this bankruptcy was filed, the Debtor believes that the unsecured creditors would receive a distribution that is substantially less than that they will receive under the proposed plan. In particular, because of the nature of the accounts receivable as student debt, the Debtor and its agents are in the best position to maximize recovery of those accounts receivable because they have dealt with education debt and student borrowers, which have unique challenges. For example, the documentation for students who were anticipating federal loans but did not receive them is extensive, running into dozens of pages for each student borrower, all of which is stored on a complex database. The effort it would take for a Trustee in a Chapter 7 to understand the system and take over these collection efforts would be huge and inefficient. Moreover, if the case were to go into a Chapter 7 and relinquish control of student records, the Debtor would be required to undertake efforts to secure the student records immediately, which would involve considerable expense.

Even if this Plan is accepted by each class of claims, the Bankruptcy Code requires the Bankruptcy Court to determine that the Plan is in the best interest of all classes of creditors that are impaired by the Plan. The "best interest" test requires the Bankruptcy Court to find either that all members of an impaired class of claims or interest have accepted the Plan, or that the Plan will provide a member of a class which has not accepted the Plan with a recovery that has a value at least equal to the value of the recovery that such member would receive if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

The Debtor submits to the Court that in the event the assets of the Debtor were liquidated under a Chapter 7, the aggregate dollar amount that would be generated from the sale of the Debtor's assets is substantially less than the creditors will receive through this Chapter 11 liquidation. The "liquidation value" of the assets would consist of the proceeds from a forced sale of the Debtor's assets by a Trustee under a Chapter 7 liquidation. The Debtor believes that in a Chapter 7 liquidation, the likely recovery will be 0% to the general unsecured creditors. The anticipated recovery from a "forced sale" through a Chapter 7 liquidation is substantially less primarily due to the fact that the Debtor believes a Chapter 7 Trustee could not collect the student debt.

Student debt which Debtor is managing consists of three (3) types of obligations: (a) promissory note signed by students when contacted by the Debtor after it closed; (b) obligations of students who anticipated that they were receiving Federal Student Aid, not funds that were not released by the Department of Education; and (c) students who incurred general debt obligations for receiving services from the Debtor. Calculating the amounts owed by each student and compiling and obtaining copies of all written materials supporting the Debtor's claim is extremely complex and requires a thorough knowledge of the Debtor's records and a sophisticated computer system. Although the Debtor has made student records available to all students in the past, it will begin withholding student records for students who fail to pay their obligations to the University. Given the confidential nature of student records, it is unclear if a Chapter 7 Trustee would be able to utilize those records as part of the collection process.

By the time the court sets a hearing on the Debtor's confirmation of its Plan, the Debtor hopefully will have retained the Slovin law firm and it, along with NES, will be in a position to effect a thorough and professional collection process of the student debt outstanding. The

payback period for some of the debt extends for as many as ten (10) years. Therefore, the Debtor believes that it is in the best interest of the creditors for the Debtor to employ professional organizations to begin the collection process and to be able to estimate the potential value and collectability of the student obligations Once this information is available, the student debt can be sold to third party collectors, at a discount. The Debtor will sell all student debt within twenty-four (24) months of the date of confirmation of the Plan.

Based upon this analysis, the Debtor has satisfied the best interest of creditors test by showing that a Chapter 11 liquidation controlled and overseen by the Debtor can lead to the collection of at least a significant portion of the outstanding student debt, which is the only significant asset of the Debtor which would be available for other than administrative claim creditors.

ARTICLE 8

FEASIBILITY

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of the Plan is not likely to be followed by the liquidation of the Debtor or the need for further financial reorganization, unless liquidation is proposed in the plan. In this case, the Plan proposes an orderly liquidation and therefore meets the feasibility requirement.

ARTICLE 9

MECHANICS OF CHAPTER 11

9.1 IMPAIRED CLASSES TO VOTE. Each impaired class of Creditors with Claims against any of the Debtor's estate shall be entitled to vote separately to accept or reject the Plan.

9.2 ACCEPTANCE BY CLASS OF CREDITORS. A Class of Creditors shall have accepted the Plan if the Plan is accepted by at least TWO-THIRDS (2/3) in amount and more

than ONE-HALF (1/2) in number of the Allowed Claims of such class that have accepted or rejected the Plan.

9.3 CRAMDOWN. In the event any impaired class of Creditors with Claims against the Debtor's estate fails to accept the Plan in accordance with § 1129(a) of the Bankruptcy Code, the Debtor shall request the Bankruptcy Court to confirm the Plan in accordance with § 1129(b) of the Bankruptcy Code.

ARTICLE 10

PROCEDURES FOR RESOLVING DISPUTED CLAIMS

Within seventy-five (75) days following the Confirmation Date, the Debtor may file objections to any of the claims which it disputes. A copy of any such objection must be filed with the Court and a copy must be served upon the affected creditor at the address shown on its proof of claim by regular mail.

While said objections are pending, no payments will be made with respect to the disputed claim. As soon as practicable after the date of any final, non-appealable order allowing the claim, distribution will be made pursuant to provisions of the Plan.

The Debtor intends to object to the claim of the U.S. Department of Education in the amount of $26,904,960.17.

ARTICLE 11

JURISDICTION

11.1 RETENTION OF JURISDICTION. Post-confirmation, the Court shall retain jurisdiction for the Chapter 11 case for the following purposes:

a. To determine all controversies relating to or concerning the classification, allowance or satisfaction of claims or equity security interest.

b. To determine any and all applications for compensation for professional fees.

c. To determine any and all applications, adversary proceedings and contested or litigated matters properly before the Bankruptcy Court.

d. To liquidate all disputed, contingent or unliquidated claims.

e. To modify the Plan pursuant to § 1127 of the Bankruptcy Code or to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order to the extent authorized by the Bankruptcy Code.

f. To make such orders as are necessary or appropriate to carry out the provisions of the Plan.

MID-CONTINENT UNIVERSITY, INC.

BY /s/ Mike Rose
Title: President

Prepared by:

WHITLOW, ROBERTS, HOUSTON & STRAUB, PLLC
Attorneys for Debtor

BY /s/ Nicholas M. Holland
Nicholas M. Holland
nholland@whitlow-law.com
Mark C. Whitlow
mwhitlow@whitlow-law.com
P.O. Box 995
Paducah, KY 42002-0995
270-443-4516 (Telephone)
270-443-4571 (Facsimile)

NOTICE OF ELECTRONIC FILING
AND CERTIFICATE OF SERVICE

I hereby certify that on March 15, 2016, I electronically filed the foregoing with the Clerk of the Court, and will send a copy to those parties not receiving electronic notice.

BY /s/ Nicholas M. Holland
Nicholas M. Holland
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